

**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS  
CABINET FOR HEALTH SERVICES**

**In Reference to the Statewide Single Audit  
of the Commonwealth of Kentucky**

**For the Year Ended June 30, 2003**



**CRIT LUALLEN  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

James W. Holsinger, Jr., MD, Secretary  
Cabinet for Health and Family Services

**MANAGEMENT LETTER**

Pursuant to KRS 43.090 (1), which states, "[i]mmediately upon completion of each audit and investigation, except those provided for in KRS 43.070, the Auditor shall prepare a report of his findings and recommendations," we are providing this letter to the Cabinet for Health and Family Services to comply with KRS 43.090.

This letter presents the results of the work performed at the Cabinet for Health Services, as part of our annual audit of the Commonwealth of Kentucky's financial statements. Executive Order 2003-064 has reorganized the Cabinet for Health Services into the Cabinet for Health and Family Services as of December 23, 2003.

In planning and performing our audit of the basic financial statements of the Commonwealth for the year ended June 30, 2003, we considered the Cabinet for Health Services' internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Cabinet for Health Services' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

As part of our audit of the Commonwealth's basic financial statements, we also performed tests of the Cabinet for Health Services' compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of those tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

James W. Holsinger, Jr., MD, Secretary  
Cabinet for Health and Family Services

Some findings are Other Matters that we have included in this letter to communicate with management in accordance with *Government Auditing Standards*.

Included in this letter are the following:

- Acronym List
- Findings and Recommendations (Reportable Conditions and Other Matters)
- Summary Schedule of Prior Year Audit Findings

We have issued our Statewide Single Audit of the Commonwealth of Kentucky that contains the Cabinet for Health Services' findings, as well as those of other agencies of the Commonwealth. This report can be viewed on our website at [www.kyauditor.net](http://www.kyauditor.net).

This letter is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts



CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

James W. Holsinger, Jr., MD, Secretary  
Cabinet for Health and Family Services

**MANAGEMENT LETTER**

Pursuant to KRS 43.090 (1), which states, "[i]mmediately upon completion of each audit and investigation, except those provided for in KRS 43.070, the Auditor shall prepare a report of his findings and recommendations," we are providing this letter to the Cabinet for Health and Family Services to comply with KRS 43.090.

This letter presents the results of the work performed at the, as part of our annual Statewide Single Audit of the Commonwealth of Kentucky. Executive Order 2003-064 has reorganized the Cabinet for Health Services into the Cabinet for Health and Family Services as of December 23, 2003.

In planning and performing our audit over compliance with requirements applicable to major federal programs, for the year ended June 30, 2003, we considered the Cabinet for Health Services' internal control in order to determine our auditing procedures for the purpose of expressing an opinion on compliance with requirements applicable to each major federal program and to report on internal control over compliance in accordance with Office of Management and Budget (OMB) Circular A-133 and on the Schedule of Expenditure of Federal Awards (SEFA).

We noted certain instances of noncompliance with requirements applicable to major federal programs. These instances of noncompliance were not considered reportable under standards established by OMB Circular A-133.

As part of our audit of the Commonwealth's basic financial statements, we also performed tests of the Cabinet for Health Services' compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of those tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

James W. Holsinger, Jr., MD, Secretary  
Cabinet for Health and Family Services

Some findings are Other Matters that we have included in this letter to communicate with management in accordance with *Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards*.

Included in this letter are the following:

- Acronym List
- Schedule of Expenditures of Federal Awards
- Notes to the Schedule of Expenditures of Federal Awards
- Findings and Recommendations (Federal Noncompliance, and Other Matters)
- Summary Schedule of Prior Year Audit Findings

We have issued our Statewide Single Audit of the Commonwealth of Kentucky that contains the Cabinet for Health Services' findings, as well as those of other agencies of the Commonwealth. This report can be viewed on our website at [www.kyauditor.net](http://www.kyauditor.net).

This letter is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

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Crit Luallen  
Auditor of Public Accounts



## **LIST OF ABBREVIATIONS/ACRONYMS**

ADD	Area Development Districts
AAA	Area on Aging
APA	Auditor of Public Accounts
BDC	Backup Domain Controllers
CCSHCN	Commission for Children with Special Health Care Needs
CFDA	Catalog of Federal Domestic Assistance
CHFS	Cabinet for Health and Family Services
CHR	Cabinet for Human Resources (former name of the Cabinet for Health Services and the Cabinet for Families and Children)
CIM	Compaq Insight Manager
CHS	Cabinet for Health Services
CPA	Certified Public Accountant
DMS	Department of Medicaid Services
DoS	Denial of Service
DPH	Department for Public Health
DTR	Division for Technology Resources
FAC	Finance and Administrative Cabinet
FTP	File Transfer Protocol
FY	Fiscal Year
GOT	Governor's Office for Technology
HIPAA	Health Insurance Portability and Accountability Act
HTTP	Hypertext Transfer Protocol
HTTPS	Hypertext Transfer Protocol over Secure Socket Layer
KAR	Kentucky Administrative Regulations
KD&A	Knowledge Development and Application
KRS	Kentucky Revised Statutes
LAN	Local Area Network
LHD	Local Health Departments
LSA	Local Security Authority
MHMR	Mental Health/Mental Retardation
NA	Not Applicable
NDC	National Drug Code
NT	New Technology (Microsoft Windows operating system)
OBRA	Omnibus Budget Reconciliation Act
OIG	Office of the Inspector General
OAS	Office of Aging Services
OMB	Office of Management and Budget
PBM	Pharmacy Benefits Manager
PC	Personal Computer
PDC	Primary Domain Controller
R&D	Research and development
SEFA	Schedule of Expenditures of Federal Awards
SNMP	Simple Network Management Protocol
SQL	Structured Query Language

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<u>U.S. Department of Agriculture</u>				
Direct Programs:				
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	80,187,442		14,794,805
10.570	Nutrition Services Incentive	1,226,231		1,226,230
Passed Through From Cabinet for Families and Children:				
Food Stamp Cluster:				
10.561	State Administrative Matching Grants for Food Stamp Program	155,835		
<u>U.S. Department of Labor</u>				
Direct Programs:				
17.235	Senior Community Service Employment Program	1,656,901		1,623,913
17.253	Welfare-to-Work Grants to States and Localities (Note 5)			
<u>U. S. Department of Transportation</u>				
Passed Through From Department of State Police:				
Highway Safety Cluster:				
20.600	State and Community Highway Safety	9,091		9,091
<u>U.S. Environmental Protection Agency</u>				
Direct Programs:				
66.032	State Indoor Radon Grants	491,601		240,980
66.606	Surveys, Studies, Investigations and Special Purpose Grants	66,935		26,367
66.707	TSCA Title IV State Lead Grants-Certification of Lead-Based Paint Professionals	84,908		1,100

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<b><u>U.S. Department of Energy</u></b>				
<b>Passed Through from Cabinet for Families and Children:</b>				
81.042	Weatherization Assistance for Low-Income Persons	28,875		
<b>Passed Through From Natural Resources And Environmental Protection Cabinet:</b>				
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight	330,879		170,164
<b><u>U.S. Federal Emergency Management Agency</u></b>				
<b>Passed Through From Department of Military Affairs:</b>				
83.549	Chemical Stockpile Emergency Preparedness Program	1,095		
<b><u>U.S. Department of Education</u></b>				
<b>Direct Programs:</b>				
84.181	Special Education - Grants for Infants and Families with Disabilities (Note 5)			
84.186	Safe and Drug-Free Schools and Communities - State Grants	531,284		499,507
<b>Passed Through From Department of Education:</b>				
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	13,115		
<b><u>U.S. Department of Health and Human Services</u></b>				
<b>Direct Programs:</b>				
93.003	Public Health and Social Services Emergency Fund	123,659		20,277
93.041	Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	74,366		73,728

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<b><u>U.S. Department of Health and Human Services (Continued)</u></b>				
<b>Direct Programs (Continued):</b>				
93.042	Special Programs for the Aging - Title VII, Chapter 2 - Long-term Care Ombudsman Services for Older Individuals	180,603		95,418
93.043	Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	245,559		243,520
<b>Aging Cluster:</b>				
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	4,947,835		4,937,070
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services	7,648,793		7,383,980
93.046	Special Programs for the Aging - Title III, Part D - In-Home Services for Frail Older Individuals (Note 6)			
93.048	Special Programs for the Aging - Title IV and Title II - Discretionary Projects	28,373		28,373
93.052	National Family Caregiver Support	1,476,953		1,375,674
93.053	Nutrition Services Incentive Program	653,597		653,597
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,149,422		1,143,882
93.110	Maternal and Child Health Federal Consolidated Programs	56,590		16,000
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs (Note 3)	1,049,791	52,602	864,585
93.130	Primary Care Services - Resource Coordination and Development	94,374		30,000
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,043,500		1,033,196
93.150	Projects for Assistance In Transition from Homelessness (PATH)	300,000		300,000
93.197	Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Levels in Children	236,022		78,514

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<b><u>U.S. Department of Health and Human Services (Continued)</u></b>				
<b>Direct Programs (Continued):</b>				
93.217	Family Planning - Services	5,339,464		5,083,488
93.230	Consolidated Knowledge Development and Application (KD&A) Program (Note 4)	657,824		602,866
93.235	Abstinence Education	950,126		893,553
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement (Note 4)	434,714		347,125
93.262	Occupational Safety and Health Research Grants	18,897		18,897
93.268	Immunization Grants (Note 3)	2,498,134	12,775,047	1,834,719
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance (Note 3)	8,575,216	49,343	5,657,368
93.630	Developmental Disabilities Basic Support and Advocacy Grants	935,782		537,245
93.767	State Children's Insurance Program (Note 2)	69,880,862		312,295
<b>Medicaid Cluster:</b>				
93.777	State Survey and Certification of Health Care Providers and Suppliers (Note 2)	5,782,711		
93.778	Medical Assistance Program (Note 2)	2,735,768,588		
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	794,870		630,179
93.917	HIV Care Formula Grants	6,747,313		5,075,336
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	877,572		787,422
93.940	HIV Prevention Activities - Health Department Based (Note 3)	2,114,339	11,599	1,099,819
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	106,308		39,484
93.945	Assistance Programs for Chronic Disease Prevention and Control	860,317		220,499

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<b><u>U.S. Department of Health and Human Services (Continued)</u></b>				
<b>Direct Programs (Continued):</b>				
93.958	Block Grants for Community Mental Health Services	5,960,002		5,876,657
93.959	Block Grants for Prevention and Treatment of Substance Abuse (Note 2)	21,918,102		21,746,559
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants (Note 3)	1,026,720	333,506	221,485
93.988	Cooperative Agreements For State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	532,250		468,375
93.991	Preventive Health and Health Services Block Grant	1,795,984		1,671,519
93.994	Maternal and Child Health Services Block Grant to the States	8,078,161		8,024,892
<b>Passed Through From Cabinet for Families and Children:</b>				
93.556	Promoting Safe and Stable Families	378		
93.558	Temporary Assistance for Needy Families	168,623		
93.563	Child Support Enforcement	5,903		
93.568	Low-Income Home Energy Assistance	9,933		
93.569	Community Services Block Grant	34,757		
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	2,493,243		
93.658	Foster Care - Title IV - E	96,073		
93.667	Social Services Block Grant	181,802		168,378
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	212		
93.674	Chafee Foster Care Independent Living	103		
<b><u>U.S. Corporation for National and Community Service</u></b>				
<b>Direct Program:</b>				
<b>Foster Grandparents/Senior Companion Cluster:</b>				
94.011	Foster Grandparent Program	546,121		108,325
NA	Chemical Laboratory Improvement Act	246,161		
<b>TOTAL CABINET FOR HEALTH SERVICES</b>		2,989,531,194	13,222,097	98,296,456

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies**

**Basis of Presentation** - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a SEFA showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity for CHS, except those programs administered by state universities, and is presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. The Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the basic financial statements.

KRS 45.229 provides that the Finance and Administration Cabinet may, “for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

The noncash expenditures presented on this schedule represent the noncash assistance expended by CHS during the period July 1, 2002 through June 30, 2003 using the method or basis of valuation as described in the notes to the SEFA for each program. These noncash assistance programs are not reported in CHS’ general-purpose financial statements for the year ended June 30, 2003

**Inter-agency Activity** - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Commonwealth’s SEFA:

- (a) Federal moneys may be received by one state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

State agencies that pass federal funds to state universities report those amounts as expenditures.



**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)**

**Inter-Agency Activity (Continued)**

(b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as an expenditure by the purchasing agency only.

**Note 2 - Type A Program**

Under the provisions of OMB Circular A-133, a Type A program for the Commonwealth means any program for which total expenditures of federal awards exceeds \$18 million for FY 03. All other programs are Type B programs.

Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs shall be considered as one program for determining Type A programs.

CHS had four cash programs that met the Type A program definition for the year ended June 30, 2003. CHS identified one cluster that included more than one federal program among the Type A programs. These Type A programs were:

<b>CFDA #</b>	<b>Program Title</b>	<b>Expenditures</b>
10.557	Special Supplemental Nutritional Program for Women, Infants, and Children	\$ 80,187,442
<b>Medicaid Cluster</b>		
93.777	State Survey and Certification of Health Care Providers and Suppliers	5,782,711
93.778	Medical Assistance Program	2,735,768,588
93.959	Block Grants for Prevention and Treatment of Substance Abuse	21,918,102
93.767	State Children's Insurance Program	69,880,862
<b>Total Type A Programs</b>		<u>\$2,913,537,705</u>

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**Note 3 - Noncash Expenditure Programs**

CHS had five (5) noncash programs for the year ended June 30, 2003. These noncash programs and a description of the method/basis of valuation follow:

<b>CFDA #</b>	<b>Program Title</b>	<b>Amount</b>	<b>Method/Basis of Valuation</b>
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	\$ 52,602	Per authorized award for personnel costs and travel.
93.268	Immunization Grants	12,775,047	Per authorized award for personnel, vaccine costs, and travel.
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	49,343	Per authorized award.
93.940	HIV Prevention Activities – Health Department Based	11,599	Per authorized award.
93.977	Preventive Health Services – Sexually Transmitted Diseases Control Grants	333,506	Per authorized award.
Total Noncash Expenditures		<u>\$ 13,222,097</u>	

**Note 4 - Research and Development Expenditures**

OMB Circular A-133 Section 105 states, “Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-Federal entity.”

<b>CFDA #</b>	<b>Program Title</b>	<b>Expenditures</b>
93.230	Consolidated Knowledge Development and Application (KD&A) Program	\$ 308,131
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	210,629
Total R&D Expenditures		<u>\$ 518,760</u>

**Note 5 - Zero Expenditure Programs**

These programs had no expenditures related to the respective state organization during FY 03. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures. For CFDA numbers with multiple state organizations listed, the schedule is presented in descending expenditure amount order.

**FINANCIAL STATEMENT FINDINGS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 03-CHS-1: The Vital Statistics Branch Should Improve Controls Over Assets And Separate Work Tasks**

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The Vital Statistics Branch issues birth, death, marriage, and divorce certificates. They collect receipts of checks and cash by walk-in and mail. We visited the agency on several occasions and noticed the following control weakness:

The Accountant III position has many duties related to receipts processing. The Vital Statistics Branch runs reports at the end of each day detailing the activity related to each cash receipts clerk. The Accountant III reviews all of these daily reports for errors. In addition to the end-of-the-day review, the Accountant III prepares the daily reconciliation and deposit.

Even though the receipts processing described above is better than the situation last year, more improvement is needed. When a separate person does not reconcile the deposits back to the daily cash receipts records, the person preparing the deposits can perpetrate a fraud with minimal risk of being detected.

**Recommendation**

We recommend the Vital Statistics Branch request the Financial Management and Reporting Branch perform a monthly comparison of the Vital Statistics receipts submitted for deposit to the original receipts accounting records. The person performing the reconciliation should be independent of the cash handling function and the original receipts accounting function.

**Management's Response and Corrective Action Plan**

*A comparison process has been implemented as recommended.*

**FINANCIAL STATEMENT FINDINGS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 03-CHS-2: The Vital Statistics Branch Should Take Appropriate Steps To Reduce The Identity Theft Risks**

The Vital Statistics Branch collects and registers data relating to Kentucky births, deaths, marriages, adoptions, and divorces. Kentucky birth and death certificates are easy to obtain fraudulently and could be used for fraudulent purposes, such as identity theft. Identity theft could be facilitated by the ease with which vital records can be obtained.

Proper internal control dictates the Vital Statistics Branch not release:

- Data which is excluded by law, and
- Data which could easily facilitate identity theft or other crimes.

Kentucky is one (1) of 13 states with “open” birth records and one (1) of 19 states with “open” death records. These open records states are far less restrictive on which records are exempted from disclosure and inspection.

This comment has been presented in the last two (2) audit reports. CHS management has agreed with APA auditors that the risks noted continue to exist and need to be fixed. CHS is continuing to seek legislation to correct the problem, and anticipate that the legislation will pass during the 2004 legislative session.

**Recommendation**

We recommend the branch:

- Promulgate administrative regulations as required by KRS 213.131(1) to provide adequate standards of security and confidentiality of vital records.
- Take appropriate steps, including requesting legislation, to exclude this data from potential misuse by persons seeking to commit identity theft or other unlawful acts. The end result should exclude any data that has the potential to be misused by persons seeking to commit identity theft or other unlawful acts.
- Seek to exclude social security numbers from death certificates subject to inspection under the Open Records law. The social security number on a death certificate released to the public should be excluded until such time as identity theft no longer appears to be a substantial risk.

**FINANCIAL STATEMENT FINDINGS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 03-CHS-2: The Vital Statistics Branch Should Take Appropriate Steps To  
Reduce The Identity Theft Risks (Continued)**

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**Management's Response and Corrective Action Plan**

*This item should be closed. The Department for Public Health (DPH) will continue to advocate for closed records (restrict records) if legislation is reintroduced in 2004. At present the release of information contained in vital records is not accomplished under an Open Records law. Rather, DPH remains in compliance with KRS 213.131 Inspection of Records – Public Records, as paragraph (1) reads “To protect the integrity of vital records, to ensure their proper use, and to ensure the efficient and proper administration of the system of vital statistics, it shall be unlawful for any person to permit inspection of, or to disclose information contained in vital records or to copy or issue a copy of all or part of any record except as authorized in this chapter, by regulation, or by order of a court of competent jurisdiction.” The DPH also remains in compliance with KRS 213.136 (1) which states “The state registrar shall upon receipt of an application issue a certified copy of a vital record in the registrar’s custody or a part thereof to any applicant.” It should be noted that this law clearly states “The state registrar shall ...upon receipt of an application issue a certified copy...to any applicant” and that the Chapter does not allow for that requirement to be regulated or mitigated. Lastly, the DPH further maintains compliance with other protections as applicable in the Health Insurance Portability and Accountability Act (HIPAA).*

**Auditor's Reply**

The risk of identity theft continues to exist. The risk is not eliminated by the cabinet or agency legal interpretation. If legislation is needed to address the risk, then CHS should aggressively pursue obtaining such legislation. This audit risk continues to be an open audit issue, which we believe auditee management should want to close. When this audit issue is appropriately addressed, it will be closed.

## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Compliance***

#### **FINDING 03-CHS-3: The Cabinet For Health Services Should Remove The Simple Network Management Protocol Service Or Change The Default Community String**

During the security vulnerability assessment testing of machines within CHS, the auditor found three machines having the Simple Network Management Protocol (SNMP) service available and would allow an anonymous user to logon with the community name “public.” These same three machines had also been included in our prior year audit report comment. The “public” community name is the default public account for this service. The use of the “public” community name allows excessive information to be provided to any anonymous user, such as listening ports, open sessions, active user accounts, and shares that exist.

Information provided by the SNMP service concerning a machine’s functions could be useful to an intruder in developing an attack. Worldwide access via the Internet using default logons should not be allowed.

#### **Recommendation**

We recommend CHS either disconnect the SNMP service or change the “public” community name to a more sophisticated name on all machines. Further, new machines should be checked for any established SNMP service to ensure the “public” community name has been changed.

#### **Management’s Response and Corrective Action Plan**

*The three machines listed in the report that responded to SNMP requests through the default “public” community string were identified to be in violation of CHS server security configuration policies and will have the community string changed.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Compliance***

#### **FINDING 03-CHS-4: The Cabinet For Health Services Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized**

As noted in the prior audit, CHS did not restrict critical information divulged by its network machines. During examination of the CHS local area networks (LANs) security for FY 03, we discovered several instances in which machines within the LANs provided information that could potentially assist an intruder in developing an approach to attack the system.

Using standard scanning tools, we examined the machine names and other remarks located within five CHS domains. The naming convention of machines was not sufficiently ambiguous to disguise the function of machines in three domains. Further, remarks available from two domains might catch an intruder's interest. Out of 2,026 machines examined, 351, or 17.3%, had comments that would be beneficial to unauthorized users. Both of these findings had been reported to the agency during the prior year audit.

We also ran other vulnerability assessment tools during the current fiscal year on 54 machines within the CHS domains to determine if information would still be returned for Local Security Authority (LSA), Password Policies, Valid User, Group, or Share Lists. The table below depicts the number of machines that would provide this information.

<b>Type of Information</b>	<b>Number of Machines Providing Information</b>	<b>Percentage of 54 Machines Providing Information</b>
LSA	18	33.3%
Password Policies	10	18.5%
Valid User List	10	18.5%
Valid Group List	10	18.5%
Valid Share List	7	12.9%

Within these findings, there were 15 machines that had been reported to the agency in the prior year comment that provided LSA information. Of these machines, seven (7) machines provided the auditor with password policies and valid group and user lists. Only four (4) machines still returned valid share lists.

Further, we found seven (7) machines with port 2301 open. We were allowed to logon to the Compaq Insight Manager (CIM) application on these machines with the default administrator userid and password. Access to the application provided excessive information to an unauthorized individual seeking knowledge of the system.

## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Compliance***

#### **FINDING 03-CHS-4: The Cabinet For Health Services Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized (Continued)**

An agency's domain information that is accessible to the world at large through inquiry tools should be kept at a minimum. Agencies should ensure that information such as location, accounts associated with the machine, type of data residing on the machine, and the machine's role is not divulged or is stated in the most minimal of terms. To accomplish this, an agency can set devices to not respond to certain types of inquiries, can use naming conventions that obscure the purpose of machines, and can provide no comments on machine activity.

#### **Recommendation**

We recommend that CHS restrict the level of information provided by its LAN machines to anonymous users. First, the naming convention for machines should be altered to make them more ambiguous, and any unnecessary computer device comments should be removed. Second, limitations should be placed on the type of response machines provide based on certain inquiries. Finally, the default logons for the CIM application should be changed.

#### **Management's Response and Corrective Action Plan**

*With regard to machine or server comments, while comments on servers and workstations aid domain administrators, most CHS computers have removed comments. There are, however, several exceptions:*

- On one server used in CHS for system backup, a server remark is automatically reestablished by the backup system when an administrator removes it. Due to economic conditions the backup technology employed on this server will continue to be used throughout its lifecycle.*
- Two CHS agencies requested in 2003 an extension of time to comply with the removal of comments including the Office of Inspector General (OIG) and Commission for Children with Special Health Care Needs (CCSHCN). OIG reported January 8, 2004 that they had concluded that "the use of the descriptor field, containing location and user name, enhanced (OIG's) ability to respond to a problem without having to refer to an identity matrix that would match a specific machine to a user and that implementation of the CHS firewall and end of day power-off policy were sufficient deterrent to potential hackers." Even if this information is not visible to agencies outside of the CHS and GOT firewall, as a follow up action, DTR has requested a report from OIG with regard to the time necessary to establish an identity matrix and/or to remove machine name comments. DTR has similarly requested an implementation plan from CHSHCN.*



## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Compliance***

#### **FINDING 03-CHS-4: The Cabinet For Health Services Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized (Continued)**

##### **Management's Response and Corrective Action Plan (Continued)**

*These two CHS agencies make up the majority of server or workstation comments.*

- *Mental Health/Mental Retardation reported January 9, 2004 "our newest staff members may not have been aware of our policy to not use comments, and contract technicians have entered several comments when they recently deployed the computers we purchased."*

*Responses from these CHS agencies indicate that the implementation of this policy requires additional auditing through DTR, ongoing education to all CHS IT staff with regard to policies and procedures, and a need to document or train contracted work staff with regard to establish protocols and procedures.*

*With regard to server naming conventions, nebulous naming conventions were established in CHS in 2002 for any new server brought on line, however, updating previous naming conventions required additional assessment to assure a limited impact on CHS business operations. Some CHS legacy systems have used "hard coded" file and server path names, which must be modified prior to updating server names. Previous naming conventions were established through guidance that was provided by GOT. Your observations indicate, however, that our naming conventions may not be nebulous enough as you have also cited server names we had considered to be vague. DTR will follow up this report with a request for guidance from the Governor's Office for Technology with regard to recommendations that will help us comply with requirements to achieve nebulous server naming conventions where possible. All server naming conventions, however, will be updated when a consolidated CHFS Active Directory structure is established.*

*CHS realizes having Port 2301 open on machines is a potential security risk and will close the port where appropriate and restrict the port access in instances where the port is unable to be closed for remote management purposes*

## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Compliance***

#### **FINDING 03-CHS-5: The Cabinet For Health Services Should Ensure That All Open Ports On Agency Servers Have A Business-Related Purpose**

During the security vulnerability assessment testing for machines controlled by CHS for FY 03, we found several CHS machines with ports open that may not have a specific, business-related purpose. Though we commented on this issue of the necessity of open ports in the prior audit report, many of the specific ports cited last year were still found open on a number of machines. Due to the large number of issues, the findings are grouped below by port number and application.

##### **Port 7 – Echo and Port 19 - Chargen**

Two (2) machines were found with both ports 7 and 19 open, one of which was noted during the prior year. These ports are not necessary for the function of the server and could potentially be used to perpetuate a Denial of Service (DoS) attack.

##### **Port 21 – File Transfer Protocol (FTP)**

Six (6) machines were discovered with port 21 open that allowed an ftp session using anonymous and/or administrator default logins. None of these machines are the same as those noted in the prior year report comment.

##### **Port 80 – Hypertext Transfer Protocol (HTTP)**

First, port 80 was open on nine (9) machines but would not display the website. When no default page or restricted logon is required, normally this means that no application/web service is running at the port. Second, configuration information for printers or print machines was provided by three (3) websites, two (2) of which were noted during the prior year. This situation allows too much access to an unauthorized or anonymous user.

##### **Port 443 – Hypertext Transfer Protocol over Secure Socket Layer (HTTPS)**

Six (6) machines were found with port 443 open but would not display a website, two (2) of which were noted in the prior year. When no default page or restricted logon is required, normally this means that no application/web service is running at the port.

##### **Port 5631 – PC Anywhere**

Two (2) machines were discovered with port 5631 open, one of which was noted during the prior year. This allows a machine to receive remote requests and run as a host to connect remotely and control a PC.

##### **Port 8000 – HTTP**

Two (2) machines were discovered that had port 8000 open. One (1) machine provided access to a printer web page that may allow too much access to an unauthorized user. The other machine did not appear to have a web service running.

## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Compliance***

#### **FINDING 03-CHS-5: The Cabinet For Health Services Should Ensure That All Open Ports On Agency Servers Have A Business-Related Purpose (Continued)**

##### **Other Ports**

Two (2) machines, both of which were noted during the prior year report comment, had ports open that do not appear to specifically relate to known business applications. CHS should review all open ports on servers to ensure that all have a valid business-related purpose.

The existence of open ports is an invitation for intruders to enter the system. Best practices dictates that only necessary, business-related services should be available and active on machines. Further, all applications should be secured to the extent possible.

##### **Recommendation**

We recommend that CHS perform a review of the services running on the noted open ports. If there is not a specific, business-related purpose requiring the service, then the service should be closed. If the service is necessary, then CHS should ensure adequate logical security controls have been implemented to prevent unauthorized access. Further, we recommend that CHS periodically review of open ports on all machines owned by the agency to ensure necessity of underlying services.

##### **Management's Response and Corrective Action Plan**

*Of the six devices identified in the report to have Port 21 (FTP) open, the majority of the machines are printers providing necessary print services. Those that were not identified as printers will have Port 21 closed.*

*Five of the machines with port 80 open displayed websites in our follow up audit. One additional machine listed with Port 80 open has been updated and patched with all appropriate patches. Other machines identified on the report as having port 80 open previously were audited and were identified to require port 80 for legitimate business purposes, with the exclusion of the one machine that is currently under investigation. OIG reported on January 9, 2003 that port 80 was an unnecessary service and the port on the reported system was closed.*

*Six machines were identified with Port 443 open. Two of these machines were not present in our follow up audit. One machine is a legitimate web server. The remaining machines are under investigation.*

*Of the two machines listed on the report with Port 8000 open, one did not exist in our follow up audit and one will be secured.*

*The remaining devices with open ports have been closed or are under investigation.*

## FINANCIAL STATEMENT FINDINGS

### *Other Matters Relating to Internal Controls and/or Compliance*

#### **FINDING 03-CHS-6: The Cabinet For Health Services Password Policy Should Be Consistently Applied To All Local Area Network Servers**

As was noted in the prior two (2) audit reports, password policies established on certain critical CHS' machines did not adhere to the agency password policies. During the FY 03 audit, testing was performed to determine the accessibility of the password policies of Primary Domain Controllers (PDC), Backup Domain Controllers (BDC), Structured Query Language (SQL), and Network (NT) machines within the five (5) CHS' domains using vulnerability assessment tools. Of 54 machines tested, we were able to obtain the password policies for 11, or 20.4 percent, of these machines. Each of these 11 machines did not comply with the established agency password policy. Five (5) of these machines had also been noted specifically with the same issue in our prior audit report. See table below for findings.

<b>Security Measure</b>	<b>Agency Security Policy</b>	<b>Current Set Policy - Number of Machines Not in Compliance with Policy</b>
Maximum Age	31 days	45 days – 6 42 days - 5
Minimum Age	1 day	0 days – 11
Minimum Length	8 characters	0 characters – 5
Lockout Threshold	3 attempts	0 attempts – 5

Further, we examined NetBIOS information to determine if specific user accounts on tested machines adhered to the established agency password policy. We found various user accounts, guest accounts, and/or administrator accounts on five machines that had been used to logon to the system but did not comply with the standard to change an account password at least every 31 days. All of these machines were noted as having the same issue in our prior audit report.

Passwords are a significant feature to guard against unauthorized system access. The failure to follow adequate password policy standards when establishing a system password could ultimately compromise the network. The purpose of a password policy is to establish a standard to create strong passwords, to protect those passwords, and to ensure passwords are changed within a specified time period. To assist in the security of a network, it is necessary for a strong policy to be developed and consistently implemented on all machines throughout the network.

**FINANCIAL STATEMENT FINDINGS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 03-CHS-6: The Cabinet For Health Services Password Policy Should Be Consistently Applied To All Local Area Network Servers (Continued)**

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**Recommendation**

We recommend that CHS review all machines within its agency-owned domains to ensure that the password policy established on the machines complies with the guidelines specified by the agency. Further, procedures should be established to periodically review these settings for all CHS' machines and ensure accounts comply with the established password policy.

**Management's Response and Corrective Action Plan**

*With regard to password policies, CHS implemented a stringent network password policy exceeding requirements of the Governor's Office for Technology (GOT) with three exceptions:*

- With regard to passwords that do not expire within 30 days, the network domain for local health departments (LHD's) expires after 45 days in accordance with agreements between the Department for Public Health and the LHD's. Agreements, however, have been updated and a 30-day password expiration policy will be implemented by the end of the first quarter 2004.*
- With regard to passwords that do not expire, each Microsoft Windows workstation operating system has by default a guest and an administrator account. By policy, the guest account on each CHS workstation is to be disabled and the Administrator account for these machines is renamed. The renamed administrator account enables Division for Technology Resources (DTR) to remotely administrate user desktop systems. While the administrator account for these workstations does not expire, it is updated periodically in accordance with CHS procedures. If the administrator password for these machines were set to expire, routine maintenance and support for systems would increase. Periodic updates of administrator passwords enable us to comply with GOT standards.*
- Mental Health/Mental Retardation reported January 9, 2004 that they have not fully complied with the Cabinet password policy and had anticipated full compliance with the policy as they joined the projected CHS active directory structure. DTR has requested an implementation plan for this policy from MHMR.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 03-CHS-7: The Division Of Program Integrity Still Has A Big Outstanding Balance Of Accounts Receivable For The Drug Rebate Program**

Historically, the Division of Program Integrity has not been actively seeking payment on accounts receivable after a second notice has been sent. The division sends a notice to delinquent drug manufacturers after 38 days. Another notice is sent after 60 days to request payment or reason for amount disputed. After the second notice is sent, there are not any other formal attempts at settlement.

There have been several attempts to collect outstanding amounts. First Health was contracted to collect claims for 1999 and 2000. Also, First Health was contracted to work on claims from 1991-1998. First Health's contract expired at the end of FY 03, but First Health had six (6) months to finish up any outstanding matters. Since the contract expiration, a Division of Program Integrity staff person, a Systems Division staff person, and Unisys have taken over First Health's duties in-house. In the near future, one of two things will occur; Department of Medicaid Services (DMS) will either add to Unisys' functions to address the problem, or Medicaid will be adding a Pharmacy Benefits Manager to address all pharmacy issues.

The director and his staff are monitoring accounts receivable and implementing procedures in an attempt to correct years of oversight. Things seem to be improving. The director and his staff have been more active, but there is still a large accounts receivable balance.

As of June 30, 2003, accounts receivable balance for the Drug Rebate Program was \$72,174,958 since June 30, 1991. For FY 03, the amount outstanding is \$5,720,477. Medicaid is potentially losing millions of dollars that could help offset budget deficits in the coming and present fiscal year.

The Medicaid Drug Rebate Program, created by the Omnibus Budget Reconciliation Act (OBRA) of 1990, states the following:

Except as provided under V(b), to make such rebate payments for each calendar quarter within 30 days after receiving from the State the Medicaid Utilization Information defined in this agreement. Although a specific amount of information has been defined in I(n) of this agreement, the Manufacturer is responsible for timely payment of the rebate within 30 days of receiving, at a minimum, information on the number of units paid, by NDC number. In the event that in any quarter a discrepancy in Medicaid Utilization Information is discovered by the Manufacturer, which the Manufacturer and the State in good faith are unable to resolve, the Manufacturer will provide written notice of the discrepancy, by NDC number, to the State Medicaid Agency prior to the due date in II(b). If the Manufacturer in good faith believes the State Medicaid Agency's Medicaid Utilization Information is erroneous, the Manufacturer shall pay the State Medicaid Agency that portion of the rebate amount claimed which is not disputed within the required due date in II (b).

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 03-CHS-7: The Division Of Program Integrity Still Has A Big Outstanding Balance Of Accounts Receivable For The Drug Rebate Program (Continued)**

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In addition, proper accounting procedures for accounts receivables require balances be monitored and immediate action taken for outstanding balances.

**Recommendation**

We recommend the accounts receivable balance be monitored and collection procedures continue.

**Management's Response and Corrective Action Plan**

*We can assure the auditor's office that the accounts receivable balance will continue to be monitored closely and that all collection and resolution efforts will continue as well. As you know, Program Integrity was created in the fall of 2001 and did not absorb this function fully until early 2002, so much of the problems and backlog was inherited. We appreciate the positive remarks.*

*As explained previously, the outstanding balance of \$72,174,958 referenced above includes the current late invoicing that occurred for the second quarter of FY 03, in the amount of \$30,338,090. Drug manufacturers would not have sent in their payments until after July of 03. Thus, that amount may appear to be excessive when in reality, much was recovered shortly after the end of FY 03. Much of the remaining balance is the aged backlog that we are working through with limited resources.*

*It is suggested that the Department take some other formal step at collection after the 60-day late notices. We do take steps; however, since there is only one DMS staff person available for drug rebate dispute resolution, and we are in a transition phase toward augmenting our resources at Unisys, or with a PBM, we are limited in what we can accomplish. It would be impossible at this time to handle every dispute from every Manufacturer for each NDC (potentially thousands) in a formal comprehensive fashion, but we are working toward that goal and concur that more action should be taken.*

*Although First Health had the contract to clean up unresolved disputes from 1991-1996, nothing was done due to problems recreating the pharmacy data from those old years and getting First Health to download the data. Also, First Health was only able to work the top 20 labelers that had NDCs in dispute for 1999-2000.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 03-CHS-8: The Division of Program Integrity Still Does Not Track Interest Due On Outstanding Drug Rebate Accounts**

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The Division of Program Integrity does not track interest due on outstanding balances for the Drug Rebate Program. For FY 03, 15 of the 45 manufactures tested had interest due. The auditor inquired how interest was computed on outstanding balances and was told the manufactures computed their own. No one in the agency recomputed interest to determine the amount paid was correct. DMS has the responsibility to track the amount of interest due from each manufacturer. The director and manager are aware of this problem and are working toward a solution.

The Medicaid Drug Rebate Program, created by the Omnibus Budget Reconciliation Act (OBRA) of 1990 states:

The balance due, if any, plus a reasonable rate of interest as set forth in Section 1903(d)(5) of the Act, will be paid or credited by the Manufacturer or the State by the due date of the next quarterly payment in II(b) after resolution of the dispute.

Since DMS is not tracking interest, the state could be losing several thousand dollars to offset the federal match. Drug manufacturers are responsible for calculating and paying interest. However, this does not relieve DMS from the responsibility of oversight in this control area and knowing which manufacturers should be paying interest and the proper rates.

Good business practices dictate tight controls over accounts receivable. Allowing manufactures to calculate and pay interest themselves, with no checks or oversight, allows for discrepancies and a lack of control.

**Recommendation**

We recommend the Division of Program Integrity, or its Fiscal Agent, Unisys, calculate and track interest due on outstanding balances for Drug Rebate. Comparisons should be made to manufacturers' payments and any discrepancy corrected.

**Management's Response and Corrective Action Plan**

*Division of Program Integrity has requested that Unisys have the ability to calculate and track interest for late rebate payments. This was initiated in March of 2003, but due to the complexity of computing the interest and due to the fact that the drug companies could assess interest against the Department for these amounts owed by DMS, this system Design Change Request was put on hold. We*



**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 03-CHS-8: The Division of Program Integrity Still Does Not Track Interest Due On Outstanding Drug Rebate Accounts (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*have a meeting scheduled for next week to assess whether Unisys could verify whether the interest received is assessed correctly. Also, as explained previously, until the Department is able to clean up and verify accurate amounts for the backlog of disputes, we may be assessing interest on inaccurate or overstated amounts and exposing the Department to an unknown amount of corresponding interest assessed by manufacturers when the resolution of a dispute results in amounts owed to a manufacturer, which does occur. We concur in theory that we need to be in a position to calculate and track interest, and we have initiated this process through the system change. As soon as we have cleaned up the aged backlog to a satisfactory level (i.e. verify the accurate amount of the principal debt), we will assess interest.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 03-CHS-9: The A-133 Audits Of Subrecipients Need To Have A Timely Desk Review**

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910 KAR 1:220, Section 3(10)(a)7 states that, “In compliance with the monitoring and evaluation responsibilities the office shall...conduct monitoring through the review and analysis of reports submitted to the office by the area agencies on aging.” One of the most important reports submitted to the Office of Aging Services (OAS) by the Area Agencies on Aging is the annual audit of the Area Development District (ADD) conducted by an independent CPA firm. OAS contracted with the Office of the Inspector General (OIG) to conduct desk reviews of the A-133 audits on the ADDs. The desk reviews were documented this year, which was an improvement over the prior year.

The A-133 audits on the ADDs are due to be submitted by March 31, and OAS is required to conduct a desk review within six (6) months of receiving the audit. Even though all of the desk reviews were conducted by December 8, 2003, only one of the desk reviews was completed prior to September 30, 2003. Either the desk reviews were completed more than six (6) months after receipt, or the A-133 ADD audits were not obtained on time. In any event, the desk reviews should have been completed no later than September 30, 2003.

In order to effectively monitor subrecipients, audit reports submitted by the subrecipient should be reviewed to determine whether the ADD had any reportable conditions or questioned costs related to applicable programs. Also, reports should be reviewed and compared for accuracy and completeness of grant funding information. Management cannot make informed decisions about frequency and intensity of monitoring and funding decisions without proper documentation of review of A-133 audit reports.

910 KAR 1:220 § 3 (10) (a) 7 states that OAS shall “conduct monitoring through the review and analysis of reports submitted to the office by the area agencies on aging.” The OMB A-133 audits are due no later than nine (9) months after the end of the June 30 fiscal year end, which is March 31. The desk review for each A-133 audit report is required to be completed within six (6) months of receiving the audit report.

**Recommendation**

We recommend OAS staff take steps to ensure that the A-133 audit reports for the ADDs are obtained by or before March 31. Also, the desk review for each A-133 audit report should be completed within six (6) months of receiving the A-133 audit report.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 03-CHS-9: The A-133 Audits Of Subrecipients Need To Have A Timely Desk Review (Continued)**

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**Management's Response and Corrective Action Plan**

*In addition to contracting with the Office of Inspector General (OIG) to conduct desk reviews of the A-133 audits of all fifteen area development districts (ADDs), the Office of Aging Services (OAS) has developed a desk review tool that will be completed by OAS staff for all fifteen ADDs. OAS plans to contract with OIG again in FY 2005 to complete the desk reviews for all fifteen ADDs. OIG assures us that completing the reviews for all fifteen ADDS by the required September 30, 2004 deadline is feasible. The deadline for completion of the desk reviews will be included in the contract between OAS and OIG. OAS has developed a tracking log to monitor and ensure that the independent audits are received in our office by the March 31 deadline.*

*In addition to the desk reviews, OIG is conducting in-depth quality control reviews of four ADDs each year. OIG has completed the field work for these four ADDs and has submitted the findings/recommendations for two of the ADDs to our office. OIG is in the process of completing the findings/recommendations for the other two ADDs.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 03-CHS-10: Aging Should Conduct On-Site Monitoring Visits To Each Area Development District During A Fiscal Year**

Periodic monitoring visits to each ADD are to be performed by the OAS. Each ADD has an Area Agency on Aging. The annual monitoring visits to Buffalo Trace and Kentuckiana Regional Planning and Development Agency were conducted after July 1, 2003. These monitoring visits should have been conducted on or prior to June 30, 2003. These visits occurred following the close of FY 03.

Without proper subrecipient monitoring, OAS cannot effectively detect deficiencies in performance of program requirements and activities of subrecipients.

910 KAR 1:220 § 3 (10) (a) 2 states that OAS shall “Conduct annual or more frequently, if indicated, on-site monitoring visits to the area development districts.”

**Recommendation**

In order to effectively monitor subrecipients, OAS should conduct an on-site monitoring visit to each Area Agency on Aging during each fiscal year. This comment is a repeat from last year even though efforts are being made to improve the situation.

**Management Response and Corrective Action Plan**

*The Office of Aging Services scheduled annual monitoring for all Area on Aging (AAA) agencies during the fiscal year (2003). However, due to continued staff shortages and an increased workload at the Office of Aging Services, two AAA's could not be monitored prior to the end of the fiscal year (2003). Scheduling difficulties with Buffalo Trace and KIPDA, prevented staff from completing the site visit portion of our monitoring process.*

*Plan of Correction: The Office of Aging Services will successfully schedule annual monitoring site visits for each fiscal year prior to the end of the state fiscal year. Every effort will be made to seek the cooperation of any AAA that is resistant to our efforts to comply. We have instituted the following internal controls to help facilitate timely monitoring site visits:*

- 1. Within the Branch, scheduling meetings to coordinate trips;*
- 2. Tracking log to insure that site visits are accomplished*
- 3. Debriefing meetings by the Branch Manager with staff upon completion of the site visit.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 03-CHS-11: The Department For Public Health Needs To Ensure Corrective Actions Are Taken On Subrecipient Monitoring**

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The Department for Public Health (DPH) is responsible for monitoring subrecipient's use of federal awards. DPH performs monitoring through site visits. The site visits provide reasonable assurance that subrecipients administer federal assistance programs in compliance with laws, regulations, and the provisions of contracts or grant agreements and to ensure that performance goals were achieved. DPH also has the responsibility to take prompt corrective action on any monitored audit findings within a reasonable time frame.

We requested the corrective action on the Madison County Health Center Review from DPH to test compliance with OMB Circular A-133 provisions. DPH failed to provide the requested files.

DPH cannot be assured that the expended federal awards were for their intended purpose and complied with the requirements of OMB Circular A-133 without having proper monitoring procedures in place. We were unable to determine if DPH evaluated the impact of subrecipient activities on the federal program and took timely and appropriate corrective action on any findings. Failure to cooperate with the program auditors can result in a risky situation related to the cognizant federal agency.

DPH has the following responsibilities under OMB Circular A-133, Subpart D:

- 1) Ensure that subrecipients take prompt corrective action on any monitored audit findings; and,
- 2) Evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

**Recommendation**

We recommend that DPH ensure that A) appropriate corrective actions are taken on any subrecipient monitoring findings, and B) the auditors are able to review program compliance in the future.

**Management's Response and Corrective Action Plan**

*The Department for Public Health (DPH) has not prepared a final letter to the Madison County Health Department to document its review of compliance with the federal A-133 requirements. There are a number of reasons for this. At the same time, the DPH has completed its review of the Madison County Health Department and found substantial compliance with A-133. There were areas of non-compliance that are being corrected. The DPH has shared the basic data upon which it bases this assessment with the APA and will have a final letter completed no later than March 19, 2004.*

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions</u></b>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 02	02-CHS-1	The Cabinet For Health Services Should Strengthen The Security Of System Administrator Accounts	NA	0	Resolved during FY 03.
FY 02	02-CHS-12	The Division of Program Integrity Has A Large Outstanding Balance Of Accounts Receivable For The Drug Rebate Program	93.778	0	Resolved during FY 03.  Due to improvements, this finding is downgraded to an Other Matter comment for FY 03. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .  See 03-CHS-7
FY 02	02-CHS-13	The Division Of Program Integrity Does Not Track Interest Due On Outstanding Drug Rebate Accounts	93.778	0	Resolved during FY 03.  Due to improvements, this finding is downgraded to an Other Matter comment for FY 03. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .  See 03-CHS-8
FY 02	02-CHS-14	The Division Of Managed Care Does Not Maintain Records Of Complaints And Grievances	93.778	0	Resolved during FY 03.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions</u> (Continued)</b>					
<b>(1) <i>Audit findings that have been fully corrected (continued):</i></b>					
FY 01	01-CHS-9	The Drug Rebate Program Should Be More Involved In The Dispute Resolution Program In Order To Collect More Money	93.778	0	<p>Resolved during FY 03.</p> <p>Due to improvements, this finding is downgraded to an Other Matter for FY 03. This finding is no longer required to be reported under <i>Government Auditing Standards</i>.</p> <p>See 03-CHS-7</p>
FY 00	00-CHS-5	The Department For Medicaid Services Should Improve Claims Processing, Including The Dispute Resolution Process With Drug Rebate Manufacturers	93.778	0	<p>Resolved during FY 03.</p> <p>Due to improvements, this finding is downgraded to an Other Matter for FY 03. This finding is no longer required to be reported under <i>Government Auditing Standards</i>.</p> <p>See 03-CHS-7</p>
FY 99	99-CHS-7	The Department For Medicaid Services Should Improve The Controls Over Drug Rebate Billings, Collections And Recordings	93.778	0	<p>Resolved during FY 03.</p> <p>Due to improvements, this finding is downgraded to an Other Matter for FY 03. This finding is no longer required to be reported under <i>Government Auditing Standards</i>.</p> <p>See 03-CHS-7</p>

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions</u> (Continued)</b>					
<i>(2) Audit findings not corrected or partially corrected (Continued):</i>					
FY 02	02-CHS-2	The Vital Statistics Branch Should Improve Controls Over Assets And Separate Work Tasks	NA	0	Significant progress has been made, but one area still needs improvement.  See 03-CHS-1.
FY 02	02-CHS-3	The Vital Statistics Branch Should Take Steps To Reduce The Identity Theft Risks	NA	0	The CHS continues to seek legislation.  See 03-CHS-2.
FY 01	01-CHS-4	The Vital Statistics Branch Should Improve Security Over Assets And Segregate Job Duties	NA	0	Significant progress has been made, but one area still needs improvement.  See 03-CHS-2.
FY 01	01-CHS-6	The Vital Statistics Branch Should Take Steps To Prevent Identity Theft	NA	0	The CHS continues to seek legislation.  See 03-CHS-1.

*(3) Corrective action taken is significantly different from corrective action previously reported:*

There were no findings for this section.

*(4) Audit finding is no longer valid or does not warrant further action:*

There were no findings for this section.



**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
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**Material Weaknesses/Noncompliances**

*(1) Audit findings that have been fully corrected:*

There were no findings for this section.

*(2) Audit findings not corrected or partially corrected:*

There were no findings for this section.

*(3) Corrective action taken is significantly different from corrective action previously reported:*

There were no findings for this section.

*(4) Audit finding is no longer valid or does not warrant further action:*

There were no findings for this section.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Other Matters</u></b>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 02	02-CHS-9	The Vital Statistics Branch Has An Outdated Computer System	NA	0	A new computer system is now in place.
FY 02	02-CHS-10	Vital Statistics Policies And Procedures Should Be Upgraded	NA	0	The policies and procedures were upgraded.
FY 02	02-CHS-11	The Timesheet Preparation Process Needs Better Oversight	NA	0	Resolved during FY 03.
FY 02	02-CHS-15	The Division Of Systems And Member Services Does Not Reconcile Supplementary Insurance Billing	93.778	0	Resolved during FY 03.
FY 01	01-CHS-7	Vital Statistics Should Update Its Computer System	NA	0	Resolved during FY 03.  A new computer system is now in place.
FY 01	01-CHS-8	Vital Statistics Should Update Its Policies And Procedures Manual	NA	0	The policies and procedures were updated.
FY 01	01-CHS-10	The Cabinet For Health Services Should Reconcile The Supplementary Medical Insurance Data To The Agency Level Unisys Reports	93.778	0	Resolved during FY 03.
FY 01	01-CHS-13	All Relevant Data Should Be Entered Into The Managed Care Program's Complaint/Grievance Call Log System In Order To Make Proper Determinations On How To Resolve A Complaint Or Grievance	93.778	0	Resolved during FY 03.
FY 00	00-CHS-10	The Department For Medicaid Services Should Strengthen Controls Over Supplementary Medical Insurance Bills	93.778	0	Resolved during FY 03.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Other Matters</u></b>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 99	99-CHS-11	Internal Controls Over The Managed Care Program Should Be Improved	93.778	0	Resolved during FY 03.  See 02-CHS-14.
FY 99	99-CHS-12	The Department For Medicaid Services Should Strengthen Controls Over Supplementary Medical Insurance Bills	93.778	0	Resolved during FY 03.  See 02-CHS-15.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 02	02-CHS-4	The Cabinet For Health Services Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized	NA	0	Exceptions were still noted for FY 03.  See 03-CHS-4.
FY 02	02-CHS-5	The Cabinet For Health Services Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	Exceptions still noted for FY03 assessments.  See 03-CHS-5.
FY 02	02-CHS-6	The Cabinet For Health Services Should Be Consistently Applied To All Local Area Network Servers	NA	0	Exceptions were still noted for FY 03 assessments.  See 03-CHS-6.
FY 02	02-CHS-7	The Cabinet For Health Services Should Remove The Simple Network Management Protocol Service Or Change The Default Community String	NA	0	Improvements were noted, but exceptions still existed for FY 03 assessments.  See 03-CHS-3
FY 02	02-CHS-16	The Office Of Aging Does Not Document The Performance Of Desk Reviews	93.044 and 93.045	0	Improvements were noted but minor exceptions.  See 03-CHS-9
FY 02	02-CHS-17	The Office Of Aging Did Not Make Monitoring Visits To All Area Agencies	93.044 and 93.045	0	Exceptions were noted for FY 03.  See 03-CHS-10

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
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**Other Matters**

*(3) Corrective action taken is significantly different from corrective action previously reported:*

There were no findings for this section.

*(4) Audit finding is no longer valid:*

FY 02	02-CHS-8	The Cabinet For Health Services Should Ensure All User Accounts On Its Agency Servers Are Necessary	NA	0	This issue has been downgraded to a verbal comment issued in the December 2003 letter.
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